<u>EXHIBIT B</u>

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Orangetheory's Largest Franchisee Faces Bankruptcy

By Laura Michaels
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Honors Holdings, the largest franchisee of Orangetheory Fitness, is the subject of an involuntary Chapter 7 bankruptcy petition.

• After selling studios and their area development rights to major Orangetheory Fitness operator Honors Holdings, franchisees who say they're owed millions of dollars filed a petition in federal court to force Honors into Chapter 7 bankruptcy.

• Orangetheory franchisee Robert Scot James, who last year was awarded a judgement of $5.9 million, says he's still trying to collect payment. The attorney for the petitioners said he expects more creditors to file claims against Honors.

• WhiteHorse Finance, first lien secured lender to Honors Holdings, said in its latest earnings report that as part of a restructuring and partial foreclosure agreement between it and Honors, it converted its loans and revolver investments into a new first lien secured term loan of Camarillo Fitness Holdings.

Two Orangetheory Fitness franchisees who sold studios to Honors Holdings are among the petitioners seeking to force the brand's largest operator into bankruptcy. They say they're owed millions by the Atlanta-based company, a private equity-backed group with more than 140 gyms.

In an involuntary Chapter 7 bankruptcy petition filed November 20 in the Bankruptcy Court for the Eastern District of New York, Core2000 and BOTF LLC claim Honors Holdings owes them $5.94 million and $2.85 million, respectively. A third petitioning creditor, a landlord entity listed as CA 531 86th Street (aka ACHS Management Corp.), claims it's owed $4.4 million.

"Instead of buyer beware, maybe it's a seller beware story," said Robert Scot James, a partner in Core2000. "It's just been frustrating, but it's not over yet."

James, a former Orangetheory area developer, sold his four locations, along with the development rights for the state of Tennessee and 25 open studios operated by minority partners in his territory, to Honors Holdings in May 2022. Still an Orangetheory franchisee, James has one location in Fayetteville, North Carolina.

The sale price, said James, was $12.5 million, and Honors made the first couple of payments totaling $7 million. In February 2023, about a month before the next payment was due, James said Honors told him it was having "cash flow issues" and needed to create a new payment plan.

"This is after, literally, they flew their entire group, I mean, every manager, every head coach, in January, out to Vegas for a party," said James. "I'm like, how do you guys not have money, right? They kept claiming they didn't have the money, but they continued to open new studios."

A default notice from Core2000 followed, but there were no attempts to pay, said James, and in May 2023 he and Core2000 sued Honors Holdings for breach of contract. A U.S. District Court in Delaware awarded the plaintiffs a final judgement in September 2023 which, according to court documents, required Honors to pay $5.9 million and another $85,000 in attorneys' fees.

Those payments, said James, never came. "I've been trying to collect on the judgement for well over a year," he said.

Honors Holdings, its CEO Vincent Mariani and its private equity firm owners Prospect Hill Growth Partners and KSL Capital Partners did not respond to requests for comment.

Orangetheory Fitness has more than 1,300 locations in the United States, along with about 200 international studios.

In December 2023, via a writ of garnishment, James and Core2000 asked a U.S. District Court in Georgia to seize certain assets in an attempt to obtain payments from Honors. A judge ruled, however, that WhiteHorse Capital, the senior lender to Honors, maintained a superior interest to the assets. That position came up again when James and Core2000 filed a charging order in federal court in Georgia seeking rights to profits from Honors Holdings' various limited liability companies. That was in July 2024, and WhiteHorse Capital quickly filed a motion to intervene. The case was stayed in November following the involuntary Chapter 7 bankruptcy petition.

James, who before becoming an Orangetheory franchisee noted he was an area developer in the European Wax Center system and got to know Orangetheory co-founder Dave Long when he was with EWC, said he was disappointed the franchisor didn't step in to help. Honors Holdings, he continued, took his livelihood.

"I feel they stole it, but they also took my retirement, right?" James said. "That was what I was banking on to move forward."

Like James, Anthony and Michael Bianucci are seeking payment for studios they sold to Honors Holdings in 2021. The brothers, via their company BOTF, sold 12 studios and their area representative rights in Pennsylvania. Honors, said Michael Bianucci, fulfilled two thirds of its payment obligation but in February 2023 notified BOTF it was having financial trouble. The Bianuccis are looking to collect the remaining $2.85 million.

WhiteHorse shuffles studios to new entity

Jamie Weeks created Honors Holdings in Atlanta in 2014 and by 2021 had acquired more than 50 Orangetheory studios while also opening new locations to grow his portfolio. Prospect Hill Growth Partners has been the majority equity partner since 2017, and KSL Capital came in with a preferred equity investment in 2021. Weeks, no longer CEO of Honors, continues to lead Legacy Franchise Concepts, a franchisee of dog daycare concept Dogtopia and owner of SweatHouz, an infrared sauna studio franchise.

WhiteHorse Finance, an affiliate of Miami-based WhiteHorse Capital, had been a first lien secured lender to Honors Holdings since 2019. This year, in the middle of the second quarter, WhiteHorse Finance placed Honors on non-accrual status, a term meaning it considered its loan risky enough that it doesn't expect to receive full payment of the principal or interest and is essentially putting the loan on hold.

"Honors was a company that was heavily impacted by COVID. After that, a private equity firm contributed additional equity to Honors to help them navigate the pandemic and to further execute on its growth strategy in the face of a weak market," said WhiteHorse Finance CEO Stuart Aronson during the company's second quarter earnings call, according to a transcript by financial services site Seeking Alpha. "However, the company has been experiencing weaker customer trends in recent quarters."

WhiteHorse, said Aronson, was "taking action to position the company for remediation" and working with the franchisor. By September, WhiteHorse, as part of a restructuring and partial foreclosure agreement between it and Honors, converted its loans and revolver investments with a historical cost basis of $17.8 million into a new first lien secured term loan of Camarillo Fitness Holdings and common equity interests in H.I.G. Camarillo.

These investments, according to WhiteHorse's third quarter report filed November 7 with the U.S. Securities and Exchange Commission, have an adjusted cost basis of $10.2 million.

WhiteHorse did not respond to requests for comment. Aronson, during the company's third quarter earnings call, said WhiteHorse Finance took a $5 million write-down on Honors, "reflecting continued challenging industry conditions, with a slowdown across many fitness concepts reflected in ongoing weak customer trends."

"We continue to work with the franchisor of the company to restructure the Honors Holding credit and to try to ultimately improve the company's performance. And we as the lender have taken control of this credit," said Aronson.

WhiteHorse transferred 108 of Honors Holdings' Orangetheory studios to the new Camarillo entity. Ryan Pinkston, a bankruptcy and restructuring attorney at Seyfarth Shaw who is representing the petitioners in the involuntary Chapter 7 filing, questioned if the transfer of those profitable studios was improper, while the remaining assets that would be available to other creditors are losing money.

"We believe some of those assets transferred are not subject to WhiteHorse's collateral agreement," he said. "And our understanding is Orangetheory Fitness corporate has not approved WhiteHorse and Camarillo as an operator."

Neither WhiteHorse nor Honors Holdings has responded to the initial Chapter 7 petition, Pinkston said, and there is a response deadline of December 13 looming. Honors, he said, could contest the petition and ask for dismissal, could consent and go into Chapter 7 bankruptcy (considered a liquidation bankruptcy) or move for conversion to Chapter 11 bankruptcy to allow for reorganization.

"I think a big part of this is my clients deserve a seat at the table," Pinkston said. "They have a right to access the information and see if WhiteHorse has taken assets that are outside the scope of their collateral."

Orangetheory Fitness did not address specific questions regarding the Chapter 7 bankruptcy filing, financial problems faced by Honors Holdings or any involvement in the restructuring of Honors' business, but sent comments that said in part, "We work with all franchisees to provide ongoing support, enabling our franchise partners to deliver an exceptional member experience."

Orangetheory faces concerns from franchisees

A group of Orangetheory Fitness franchisees, including Honors Holdings, in May formed an independent franchisee association seeking to address problems in the system.

In a letter May 16 to leadership and the board of directors at Woodbury, Minnesota-based Purpose Brands, the post-merger name for the multi-brand platform company that includes Orangetheory and Anytime Fitness, the Team Orange Independent Franchise Council said the challenges faced with membership growth are "clear and compelling."

The letter detailed consistent underperformance of the franchisor's net membership gain expectations. Orangetheory, the independent council noted, generated 32,000 net membership joins in January 2024, "the strongest January performance in the past two years due to the $24 join promotion." The system subsequently gave back 18,000, or 56 percent, of those members through April, resulting in the lowest year-to-date net membership gain since 2022.

"… we are gravely concerned with where the systems will be at the end of 2024," Team Orange wrote. Operators, it goes on to say, "are not able to generate the new membership joins required to drive sufficient levels of profitability at the studio level."

Four-wall EBITDA, or cash flow, averaged about $300,000 systemwide in 2019, the council wrote, citing collective records after a poll of large multi-unit professional operators representing 376 owned studios. The figured fell by more than 50 percent in 2023, the letter stated, and it went on to note that as of March 2024, for the 376 owned studios polled, "19.4 percent of these studios are losing money at the 4-wall level."

"This level of performance is not sustainable for franchisee operators or the brand, nor will it attract new capital," the council wrote.

Ron Gardner, a partner at Minneapolis-based Dady & Gardner, is the franchisee association's general counsel. In May he told Franchise Times the association did not want to "start a war" with the franchisor.

"We're looking to work with the franchisor on some short-term initiatives to amp up franchisee profitability," he said at the time. "They'd like to find win-win solutions that come through collaborative discussion and decision making."

In an email December 9, however, he said the association and Orangetheory corporate "have not engaged."

Orangetheory Fitness, meanwhile, when asked to comment on concerns the association raised and if it is working to improve membership growth, retention and unit profitability, said it "remains committed to the long-term success of our franchise partners. We welcome and value collaboration with all franchisees and offer many opportunities for access to leadership and decision-making."

Orangetheory in April completed its merger with Anytime Fitness parent Self Esteem Brands, now Purpose Brands. Purpose Brands in November named Tom Leverton as its CEO. Leverton is a former CEO of CEC Entertainment (parent company of Chuck E. Cheese), Topgolf and Omniflight. He most recently served as an operating partner at Pritzker Private Capital.

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